

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name S.E. Oakland Cnty Resource Recovery Auth.	County Oakland
Fiscal Year End June 30, 2007	Opinion Date December 10, 2007	Date Audit Report Submitted to State December 28, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 248-952-5000		
Street Address 5750 New King Street, Ste. 200		City Troy	State MI	Zip 48098
Authorizing CPA Signature Thomas Darling, CPA <small>Digitally signed by Thomas Darling, CPA DN: cn=Thomas Darling, CPA, c=US, o=Rehmann Robson, email=tdarling@rehmann.com Date: 2007.12.26 13:44:31 -05'00'</small>		Printed Name Thomas E. Darling, CPA		License Number A246550



**SOUTHEASTERN OAKLAND COUNTY  
RESOURCE RECOVERY AUTHORITY**

**FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION**

**For the Year Ended June 30, 2007**



**SOUTHEASTERN OAKLAND COUNTY  
RESOURCE RECOVERY AUTHORITY**

**FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION**

**For the Year Ended June 30, 2007**

**SOUTHEASTERN OAKLAND COUNTY  
RESOURCE RECOVERY AUTHORITY**

**BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
For the Year Ended June 30, 2007**

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**REHMANN ROBSON**

*Certified Public Accountants*

*A member of THE REHMANN GROUP*

*An Independent Member of Baker Tilly International*

## **INDEPENDENT AUDITORS' REPORT**

December 10, 2007

Members of the Board  
Southeastern Oakland County  
Resource Recovery Authority  
Oakland County, Michigan

We have audited the accompanying basic financial statements of the ***Southeastern Oakland County Resource Recovery Authority***, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the ***Southeastern Oakland County Resource Recovery Authority's*** management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the ***Southeastern Oakland County Resource Recovery Authority***, as of June 30, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles general accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2007, on our consideration of the ***Southeastern Oakland County Resource Recovery Authority's*** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal

control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on Pages 3 through 8 and the Schedule of Funding Progress on Page 23 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on ***Southeastern Oakland County Resource Recovery Authority***'s basic financial statements. The supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, stylized 'L' at the beginning.

***MANAGEMENT'S DISCUSSION  
AND ANALYSIS***

**SOUTHEASTERN OAKLAND COUNTY  
RESOURCE RECOVERY AUTHORITY  
ROYAL OAK, MICHIGAN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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As management of the Southeastern Oakland County Resource Recovery Authority (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

**Financial Highlights**

- The Authority's net assets increased in the amount of \$224,154 for the year ended.
- The liability for landfill closure and post-closure costs decreased by approximately \$54,144.
- The Authority's working capital at year end was \$(555,848), which represents approximately -7.21% of the Authority's annual expenditures. This was an improvement over the working capital at the end of the previous fiscal year of (\$675,911).

**Overview of the Basic Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements. The Authority's basic financial statements comprise two components: 1) financial statements and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Financial statements.** The *financial statements* are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as *total net assets*. Over time, increases or decreases in total net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of revenues, expenses and changes in net assets* presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., post-closure landfill costs).

The Authority is a single purpose business-type activity. As such, charges for services are intended to recover all or a significant portion of the costs to provide services. The business-type activity of



**SOUTHEASTERN OAKLAND COUNTY  
RESOURCE RECOVERY AUTHORITY  
ROYAL OAK, MICHIGAN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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the Authority includes providing a full range of solid waste services to its member communities.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. Please refer to the Notes to Financial Statements Section of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to defined benefit pension plan information and to this management discussion and analysis.

**Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of the Authority's financial position. At the close of the most recent fiscal year, assets exceeded liabilities by \$5,746,595.

By far the largest portion, \$6,939,437, of the Authority's net assets is invested in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure.) The Authority uses these capital assets to provide services to its member communities; consequently, these assets are *not* available for future spending. This results in a deficit unrestricted net assets of \$1,192,842 at year end. This was an improvement over the deficit unrestricted net assets of \$1,443,363 at the previous year end.

**SOUTHEASTERN OAKLAND COUNTY  
RESOURCE RECOVERY AUTHORITY  
ROYAL OAK, MICHIGAN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Authority Net Assets**

	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 3,734,358	\$ 623,349
Restricted assets	542,635	503,954
Capital assets, net	<u>6,939,437</u>	<u>6,965,804</u>
Total assets	<u>11,216,430</u>	<u>8,093,107</u>
 Current liabilities	 4,290,206	 1,299,260
Noncurrent liabilities	<u>1,179,629</u>	<u>1,271,406</u>
Total liabilities	5,469,835	2,570,666
 Net assets:		
Invested in capital assets	6,939,437	6,965,804
Unrestricted (deficit)	<u>(1,192,842)</u>	<u>(1,443,363)</u>
 Total net assets	 <u>\$ 5,746,595</u>	 <u>\$ 5,522,441</u>

The Authority net assets increased in the amount of \$224,154. The key elements of this increase are as follows:

- Revenue increased by \$467,694 primarily due to increased miscellaneous income and higher prices for the sale of recycled materials.
- Expenses decreased by \$525,683 primarily due to lower costs for maintenance, administrative & general expenses, refuse disposal, utilities and refunds to members.

**SOUTHEASTERN OAKLAND COUNTY  
RESOURCE RECOVERY AUTHORITY  
ROYAL OAK, MICHIGAN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

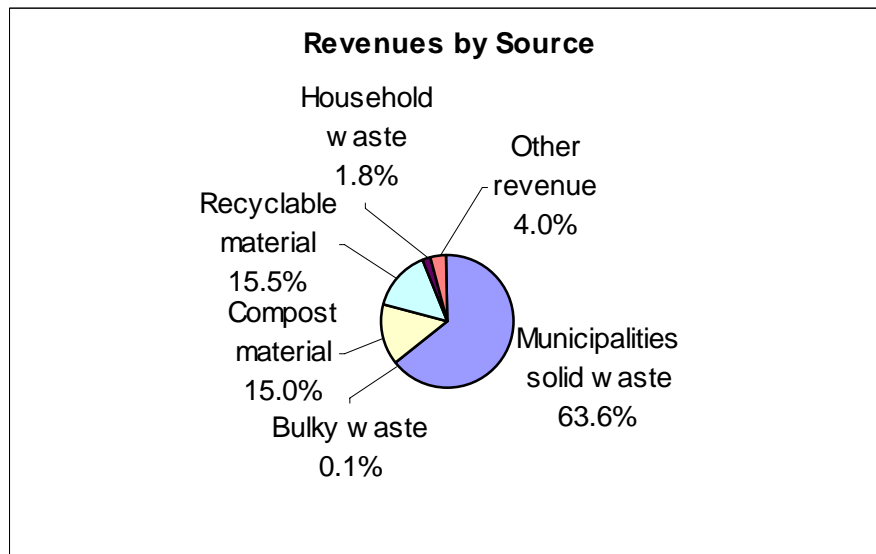
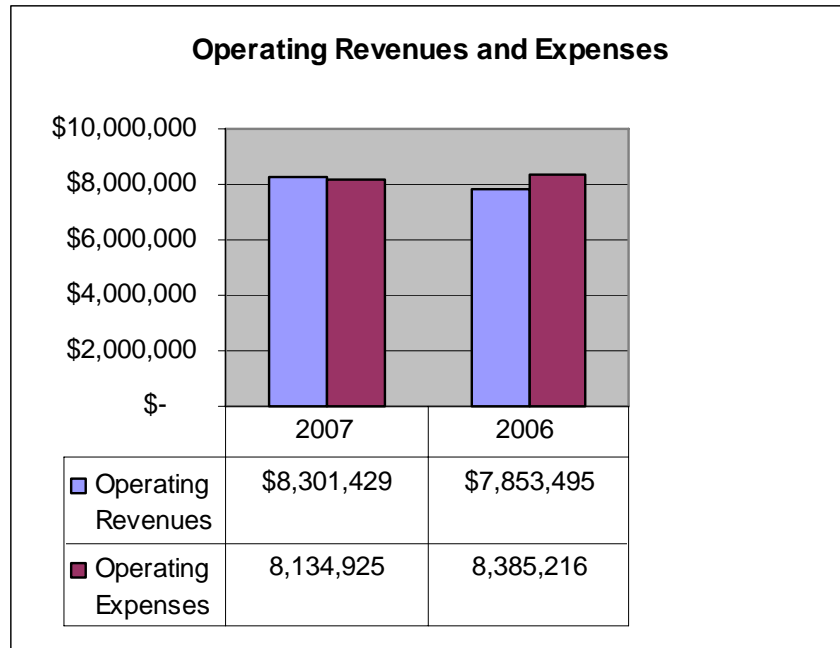
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**Authority Changes in Net Assets**

	<u><b>2007</b></u>	<u><b>2006</b></u>
Revenue:		
Charges for services	\$ 7,968,698	\$ 7,753,448
Interest	59,257	39,497
Other	<u>332,731</u>	<u>100,047</u>
Total revenue	<u>8,360,686</u>	<u>7,892,992</u>
Expenses:		
Operating expenses	6,328,482	6,554,352
Administrative and general	1,381,781	1,462,331
Depreciation	424,662	368,533
Refund to members	-	277,000
Loss on sale of capital assets	<u>1,607</u>	<u>-</u>
Total expenses	<u>8,136,532</u>	<u>8,662,216</u>
Change in net assets	224,154	(769,224)
Net assets, beginning of year	<u>5,522,441</u>	<u>6,291,665</u>
Net assets, end of year	<u>\$ 5,746,595</u>	<u>5,522,441</u>

# SOUTHEASTERN OAKLAND COUNTY RESOURCE RECOVERY AUTHORITY ROYAL OAK, MICHIGAN

## MANAGEMENT'S DISCUSSION AND ANALYSIS



**SOUTHEASTERN OAKLAND COUNTY  
RESOURCE RECOVERY AUTHORITY  
ROYAL OAK, MICHIGAN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Capital Asset and Debt Administration**

**Capital assets.** The Authority's investment in capital assets for its activities as of June 30, 2007, amounted to \$6,939,437 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, rental properties, buildings, equipment and organizational costs. The total decrease in the Authority's investment in capital assets for the current fiscal year was \$26,367 (net) or -0.38 percent.

Major capital asset events during the current fiscal year included the following:

- Installation of a second compactor at the Troy Transfer Station, \$150,081.
- Purchase of a new dump truck for the Compost site, \$135,000.
- Relocation and improvement of our recycling Drop Off Center, \$57,131

**Authority Capital Assets**  
(net of depreciation)

	<u>2007</u>	<u>2006</u>
Land	\$ 1,411,800	\$ 1,411,800
Construction in progress	185,419	551,989
Land improvements	2,702,765	2,702,765
Rental properties	1,380,032	1,380,032
Buildings	6,764,503	6,307,189
Equipment	3,693,827	3,548,397
Less: accumulated depreciation	<u>(9,198,909)</u>	<u>(8,936,368)</u>
<b>Total capital assets, net</b>	<b><u><u>\$ 6,939,437</u></u></b>	<b><u><u>\$ 6,965,804</u></u></b>

Additional information on the Authority capital assets can be found in Note II-C of this report.

**SOUTHEASTERN OAKLAND COUNTY  
RESOURCE RECOVERY AUTHORITY  
ROYAL OAK, MICHIGAN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Long-term debt.** At the end of the current fiscal year, the Authority had no debt outstanding.

**Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the Authority's budget for the 2007-08 fiscal year:

- Increased union employee wage cost of 1%.
- Increased health insurance cost of 5%.
- The number of full time employees was increased by one from the level of 2006/07
- Refuse tonnage contributed by member communities was decreased 2.5% from the 2006/07 level. Recyclable and yard waste tonnage contributed by member communities remained unchanged.
- Member rates were completely redesigned to include the costs of the new contracts for the collection of recyclables, refuse and yard waste.

**Requests for Information**

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the General Manager, 3910 W. Webster, Royal Oak, Michigan 48073.

***BASIC FINANCIAL  
STATEMENTS***

**SOUTHEASTERN OAKLAND COUNTY  
RESOURCE RECOVERY AUTHORITY  
STATEMENT OF NET ASSETS  
June 30, 2007**

**ASSETS**

**Current assets**

Cash and cash equivalents	\$ 3,089,360
Accounts receivable	482,034
Other current assets	162,964
<b>Total current assets</b>	<b><u>3,734,358</u></b>

**Noncurrent assets**

Restricted cash	542,635
Capital assets	
Not being depreciated	1,597,219
Being depreciated	5,342,218
<b>Total capital assets</b>	<b><u>6,939,437</u></b>
<b>Total noncurrent assets</b>	<b><u>7,482,072</u></b>
<b>Total assets</b>	<b><u>11,216,430</u></b>

**LIABILITIES**

**Current liabilities**

Vouchers payable	3,656,231
Other payable - related party	318,986
Current portion - Landfill post-closure care costs	55,404
Other current liabilities	259,585
<b>Total current liabilities</b>	<b><u>4,290,206</u></b>

**Noncurrent liabilities**

Accrued compensated absences	48,384
Deposits	8,950
Liability for landfill post-closure care cost	1,122,295
<b>Total noncurrent liabilities</b>	<b><u>1,179,629</u></b>
<b>Total liabilities</b>	<b><u>5,469,835</u></b>

**NET ASSETS**

Invested in capital assets	6,939,437
Unrestricted (deficit)	(1,192,842)
<b>Total net assets</b>	<b><u>\$ 5,746,595</u></b>

The accompanying notes are an integral part of these financial statements.



**SOUTHEASTERN OAKLAND COUNTY  
RESOURCE RECOVERY AUTHORITY  
STATEMENT OF REVENUE, EXPENSES  
AND CHANGES IN NET ASSETS  
For the Year Ended June 30, 2007**

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<b>OPERATING REVENUES</b>	
Municipalities solid waste	\$ 5,278,348
Bulky waste	12,268
Compost material	1,242,165
Recyclable material	1,286,081
Household waste	149,836
Other revenue	
Rental	84,727
Insurance proceeds	136,502
Miscellaneous	111,502
<b>Total operating revenues</b>	<b><u>8,301,429</u></b>
<b>OPERATING EXPENSES</b>	
Madison Heights transfer station	237,243
Reloading operation - compost	443,679
Refuse hauling operation	1,109,818
Battery recycling/special household waste	205,568
Troy transfer station operation	2,984,313
Material recovery facility	814,149
Rochester Hills landfill operation	533,712
Administrative and general	1,381,781
<b>Total operating expenses</b>	<b><u>7,710,263</u></b>
Operating income before depreciation	591,166
Depreciation	424,662
<b>Operating income</b>	<b><u>166,504</u></b>
<b>NONOPERATING REVENUES</b>	
Interest income	59,257
Loss on sale of capital assets	(1,607)
<b>Total nonoperating revenue</b>	<b><u>57,650</u></b>
<b>Change in net assets</b>	<b><u>224,154</u></b>
Net assets, beginning of year	5,522,441
<b>Net assets, end of year</b>	<b><u><u>\$ 5,746,595</u></u></b>

**SOUTHEASTERN OAKLAND COUNTY  
RESOURCE RECOVERY AUTHORITY**

**STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2007**

<b>Cash flows from operating activities</b>	
Receipts from customers	\$ 8,315,725
Payments to related party	(458,702)
Payments to suppliers	(4,378,941)
Payments to employees	(9,396)
<b>Net cash provided by operating activities</b>	<b>3,468,686</b>
<b>Cash flows from capital and related financing activities</b>	
Purchases of capital assets	(399,902)
<b>Cash flows from investing activities</b>	
Interest received on investments	59,257
<b>Net increase in cash and cash equivalents</b>	<b>3,128,041</b>
Cash and cash equivalents, beginning of year	503,954
<b>Cash and cash equivalents, end of year</b>	<b>\$ 3,631,995</b>
<b>Statement of net assets classification of cash and cash equivalents</b>	
Cash and cash equivalents	\$ 3,089,360
Restricted assets	542,635
<b>Total</b>	<b>\$ 3,631,995</b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>	
Operating income	\$ 166,504
Adjustments to reconcile net operating income to net cash provided by (used in) operating activities:	
Depreciation	424,662
Increase in accounts receivable	14,296
Decrease in other assets and receivables	(35,945)
Increase in vouchers payable and other liabilities	3,292,954
Decrease in cash overdraft	(330,970)
Decrease in accrued compensated absences	(9,396)
Increase in deposits	725
Decrease in accrued landfill liability	(54,144)
Total adjustments	3,302,182
<b>Net cash provided by operating activities</b>	<b>\$ 3,468,686</b>

# **SOUTHEASTERN OAKLAND COUNTY RESOURCE RECOVERY AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

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### **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **A. The Reporting Entity**

The Southeastern Oakland County Resource Recovery Authority (the "Authority" or "SOCRRA"), was created in 1953 as a Michigan Public Corporation under Act Number 179 of the Michigan Public Acts of 1947 (as amended by Act Number 92 of the Michigan Public Acts of 1955 and by Act Number 598 of the Michigan Public Acts of 2002) under the original title of the Southeastern Oakland County Incinerator Authority. The Authority provides waste disposal and recycling services to municipal communities in Oakland County, Michigan. The Authority is governed by a Board of Trustees, one member representing each constituent municipality. Principal funding for the Authority is derived from waste disposal charges to the member municipalities.

The Authority has followed the guidelines of the Governmental Accounting Standards Board's Statement No. 14 and has determined that no entities should be consolidated into its financial statements as component units, entities for which the government is considered to be financially accountable. Therefore, the reporting entity consists of the primary government financial statements only.

#### **B. Basis of Presentation - Government-Wide Statements**

***Government-wide financial statements.*** The statement of net assets and statement of revenues, expenses and changes in net assets report information on all of the activities of the primary government (the Authority). The Authority engages in only business-type activities. Business-type activities rely to a significant extent on fees and charges for services.

#### **C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

***Proprietary fund financial statements.*** The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Authority's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All

# **SOUTHEASTERN OAKLAND COUNTY RESOURCE RECOVERY AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

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revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Non-exchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements and donations. On an accrual basis, revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

The Authority reports the following major proprietary fund:

*Resource Recovery.* This fund accounts for the activities of the Authority's recycling and waste disposal programs.

The financial statements of the Authority follow private-sector standards of accounting and financial reporting issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

Under the terms of grant agreements, the Authority funds certain programs by a combination of specific cost-reimbursement grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Authority's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

### **D. Assets, Liabilities and Equity**

#### ***Deposits and investments***

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers' acceptances, and mutual funds composed of otherwise legal investments.

# **SOUTHEASTERN OAKLAND COUNTY RESOURCE RECOVERY AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

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Investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have established market values are reported at estimated fair value. Cash deposits are reported at carrying amounts.

### ***Receivables***

All trade receivables are shown net of an allowance for uncollectibles if an allowance is applicable. All receivables were considered 100% collectable at year-end and as such no allowance has been established.

### ***Other assets***

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as other assets in the financial statements.

### ***Restricted assets***

Certain resources of the Authority are set aside for costs of landfill closure and post-closure costs and court order mandates and are classified as restricted assets on the statement of net assets because their use is limited to those types of expenses.

### ***Capital assets***

Capital assets, which include property, plant, and equipment, are reported in the financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

# **SOUTHEASTERN OAKLAND COUNTY RESOURCE RECOVERY AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

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The depreciation on these assets are charged as an expense against the operations on a straight-line basis over the estimated useful lives of the assets, which will range from five (5) to fifty (50) years depending on the nature of the assets.

<u>Asset Type</u>	<u>Depreciable Life</u>
Land improvements	5 - 50
Rental properties	5 - 30
Buildings	10 - 50
Equipment	5 - 25
Organizational costs	30

### ***Compensated absences***

The Authority allows employees to accumulate unused vested sick leave. Once an employee has accumulated at least four hundred eighty hours (60 days), they shall receive payment at the end of the next fiscal year for all unused sick leave credits earned in excess of forty eight hours (6 days) during the immediately preceding fiscal year. At no time may an employee accumulate over nine hundred sixty hours (120 days).

## **II. DETAILED NOTES**

### **A. Deposits, Investments and Securities Lending**

*Summary of Deposit and Investment Balances.* Following is a reconciliation of deposit and investment balances as of June 30, 2007:

	<u>Deposits</u>	<u>Investments</u>	<u>Total</u>
Financial statement captions			
Cash and Cash Equivalent	\$ 46,454	\$ 3,042,906	\$ 3,089,360
Investment	<u>110,319</u>	<u>432,316</u>	<u>542,635</u>
	<u><b>\$ 156,773</b></u>	<u><b>\$ 3,475,222</b></u>	<u><b>\$ 3,631,995</b></u>

### ***Statutory Authority***

**The Authority is authorized by statute to invest surplus funds in the following:**

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.

# **SOUTHEASTERN OAKLAND COUNTY RESOURCE RECOVERY AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

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- c. Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers' acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940, limited to mutual fund securities whose intention is to maintain a net asset value of \$1.00 per share.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

The Board of Trustees is authorized to designate depositories for the Authority's funds, and to determine that the funds are invested in accordance with State of Michigan statutory authority.

The Authority's deposits are in accordance with statutory authority.

As of year-end, the Authority had pooled investment accounts with a balance of \$3,475,222. These investments are not rated and do not have a maturity date.

### ***Investment and deposit risk***

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The Authority investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Authority's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment, if available, are identified above for investments held at year-end.

*Concentration of Credit Risks.* The Authority had investments greater than five percent of the Authority's total investments with the Michigan Municipal Risk Management

# **SOUTHEASTERN OAKLAND COUNTY RESOURCE RECOVERY AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

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Authority (MMRMA) and the Comerica J pooled investment fund in the amounts of \$314,340 and \$3,042,906 respectively.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. As of year-end, \$284,702 of the total \$484,702 bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Authority does not have a policy for investment custodial credit risk. The Authority's total investments of \$3,475,222 are in short-term investment pools that are registered with the Securities Exchange Commission (the "SEC"). The investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. The short-term investments are not required to be classified according to custodial credit risk since they are not evidenced by securities that exist in physical or book entry form.

### **B. Receivables and other Assets**

Receivables are 100 percent due from member communities or long term customers and are considered fully collectable. As such no allowance for doubtful accounts has been established.

Other assets are comprised of prepaid items in the amount of \$162,963.

### **C. Capital Assets**

Capital assets activity for the year ended June 30, 2007 was as follows:

	<b><u>Beginning Balance</u></b>	<b><u>Increases</u></b>	<b><u>Decreases</u></b>	<b><u>Ending Balance</u></b>
Capital assets, not being depreciated - Land	\$ 1,411,800	\$ -	\$ -	\$ 1,411,800
Construction in progress	<u>551,989</u>	<u>5,485</u>	<u>(372,055)</u>	<u>185,419</u>
Total capital assets not being depreciated	1,963,789	5,485	(372,055)	1,597,219



**SOUTHEASTERN OAKLAND COUNTY  
RESOURCE RECOVERY AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets, being depreciated:				
Land improvement	2,702,765	-	-	2,702,765
Rental properties	1,380,032	-	-	1,380,032
Buildings	\$ 6,307,189	\$ 457,314	\$ -	\$ 6,764,503
Equipment	3,548,397	316,158	(170,728)	3,693,827
Total capital assets being depreciated	<u>13,938,383</u>	<u>773,472</u>	<u>(170,728)</u>	<u>14,541,127</u>
Less accumulated depreciation	<u>(8,936,368)</u>	<u>(424,662)</u>	<u>162,121</u>	<u>(9,198,909)</u>
Total capital assets being depreciated, net	<u>5,002,015</u>	<u>348,810</u>	<u>(8,607)</u>	<u>5,342,218</u>
Business-type activities capital assets, net	<u><b>\$ 6,965,804</b></u>	<u><b>\$ 354,295</b></u>	<u><b>\$ (380,662)</b></u>	<u><b>\$ 6,939,437</b></u>

**D. Restrictions of Net Assets**

Restricted net assets on the Statement of Net Assets are legally restricted for a specific purpose as imposed by sources outside of the Authority.

The schedule of restricted net assets is as follows:

	<b><u>Restricted Net Assets</u></b>
MERS	\$ 117,976
Landfill post-closure	314,340
Landfill end use	<u>110,319</u>
Total restricted assets (cash)	542,635
Less:	
Long-term liabilities payable from restricted assets	<u>542,635</u>
<b>Total restricted net assets</b>	<u><b>\$ -</b></u>

# **SOUTHEASTERN OAKLAND COUNTY RESOURCE RECOVERY AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

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### **III. OTHER INFORMATION**

#### **A. Risk Management**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority is a member of the Michigan Municipal Risk Management Authority and the Michigan Municipal League sponsored self-insurance/public entity risk pools. The Authority pays annual premiums to the respective pools for general liability, property, auto, worker's compensation and employee fidelity insurance coverage. The agreements for the formation of the Michigan Municipal Liability and Property Fund and the Michigan Municipal Workers Compensation Fund provide that the pools will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of limitations imposed by the pool. Settled claims have not exceeded coverage in any of the past three years.

#### **B. Related Party Transactions**

The Authority has developed a cost sharing strategy for certain administrative salaries, operating expenses and capital asset expenses with the Southeastern Oakland County Water Authority (SOCWA). In addition to these shared costs, the Authority also is charged and pays an annual office rental fee to SOCWA in the amount of \$40,000. These cost sharing arrangements resulted in the Authority paying SOCWA \$525,341 for the year ended June 30, 2007. As of June 30, 2007, the amount of payables due to SOCWA was \$318,986.

#### **C. Contingent Liabilities**

##### *Madison Heights Property (Old Royal Oak Township Dump Site)*

The Authority has been identified as a potentially liable party, along with three other entities, by the Michigan Department of Environmental Quality with respect to environmental contamination on the site formerly used by Royal Oak Township as a refuse disposal area. The Authority has conducted soil testing to determine the presence of contamination, performed minor debris clean up, and added soil as necessary to increase the thickness of the protective cap that covers the area. The Authority expensed \$438 for the year ended June 30, 2007, for site related costs incurred for environmental analysis and cap improvement.

# **SOUTHEASTERN OAKLAND COUNTY RESOURCE RECOVERY AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

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The Authority, in conjunction with the three other parties, has submitted a Remedial Action Plan to the State of Michigan wherein it requests that the State certify the remediation work performed to date and to approve a continuing maintenance program. The plan provides that the Authority will complete its cap improvement work and obtain certain agreements from property leases regarding use restrictions on the site. The Authority estimates that it has completed substantially all of the Remedial Action Plan items.

### *City of Rochester Hills v. SOCRRA*

The City of Rochester Hills filed a motion in June of 2002 related to the end use of the landfill property. After several hearings, the parties agreed to the following:

1. SOCRRA shall maintain an escrow account in the amount of \$100,000 that will be held until Rochester Hills and SOCRRA have agreed on an end use to the landfill property.
2. SOCRRA will continue to maintain a post-closure liability account. The balance in this account as of June 30, 2007 is \$314,340.

All of the remaining issues in this case have been resolved.

### *City of Madison Heights v SOCRRA*

This case involved Madison Heights' allegations that SOCRRA owes it an equity payment under a law purporting to govern a member's withdrawal from SOCRRA. SOCRRA filed counterclaims for unpaid invoices for environmental liabilities previously tendered to Madison Heights. The parties reached a settlement agreement on March 16, 2005 that resolved all of the outstanding issues in this case. Madison Heights agreed to assume responsibility for 8.75% of SOCRRA's environmental liabilities from July 1, 2004 forward for all SOCRRA properties used during the membership of Madison Heights in SOCRRA. SOCRRA and Madison Heights also agreed to resolve several property issues following Madison Heights' preparation of the required easements and property descriptions.

## **D. Landfill Closure and Post-Closure Care Costs**

Federal, state and local laws and regulations require the Authority to place a final cover on its Rochester Hills landfill site since it stopped accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure.

# **SOUTHEASTERN OAKLAND COUNTY RESOURCE RECOVERY AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

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A liability for landfill closure and post-closure care in the amount of \$1,177,699 is reported at June 30, 2007. These amounts represent the cumulative remaining amount reported to date based on the use of 100 percent of the estimated capacity of the landfill as of June 30, 2007, less amounts expended towards the liability. For the year ended June 30, 2007, \$47,836 was actually expended in closure costs and an additional \$19,403 was recognized as an increase in the liability for post-closure care costs. These amounts are based on what it would cost to perform all closure and post-closure care as of June 30, 2007. Actual cost may be higher because of inflation, changes in technology, or changes in regulations.

### **E. Postemployment Benefits Other Than Pensions**

The Authority provides, by Board resolution, postemployment health care benefits to employees and their dependents. Currently, there are twelve retirees or the surviving spouse of retirees who receive these benefits. Expenses are recognized as insurance premiums become due and are netted against co-pays that are required from certain participants. During the year ended June 30, 2007, \$82,653 was recognized as expense for postemployment health care.

### **F. Defined Benefit Pension Plan**

#### *Plan Description*

The Authority's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Authority participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377, [www.mersofmich.com](http://www.mersofmich.com).

All full-time Authority employees are eligible to participate in MERS. Service retirement benefits have a vesting period of 10, 15 and 25 years of service depending on the employees' age at retirement. Payment of benefits is based on the benefit program in effect as of the date of termination of membership. Payment is based on 2.25% of the three-year final average compensation multiplied by credited years of service. These

# **SOUTHEASTERN OAKLAND COUNTY RESOURCE RECOVERY AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

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benefits are established by resolution of the Authority and negotiation with the collective bargaining unit representing union employees.

### **Funding Policy**

The Authority is required to contribute at an actuarially determined rate; the rate for the valuation year ending December 31, 2004 is 10.09% of annual covered payroll. Employees are currently not required to contribute to the Plan. The contribution requirements of the Authority are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Authority or through negotiations with the collective bargaining unit representing union employees.

### **Annual Pension Cost**

For the year ended June 30, 2007, the Authority's annual pension cost of \$80,811 was equal to the Authority's required and actual contributions. The required contributions were determined as part of the December 31, 2004 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) a rate of return on the investments of present and future assets of 8.0% compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit.

The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. The Authority had an unfunded actuarial accrued liability of \$373,801 as of December 31, 2006, the date of the latest actuarial valuation.

**SOUTHEASTERN OAKLAND COUNTY  
RESOURCE RECOVERY AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

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**Three-Year Trend Information**

<b><u>Fiscal Year Ending</u></b>	<b><u>Annual Pension Cost (APC)</u></b>	<b><u>Percentage of APC Contributed</u></b>	<b><u>Net Pension Obligation</u></b>
6/30/05	\$53,481	100%	\$ -
6/30/06	63,748	100%	-
6/30/07	80,811	100%	-

In addition to the annual pension cost noted above, the Authority is also assessed a prorated share of the required contributions to MERS by the Southeastern Oakland County Water Authority (SOCWA). The prorated amount is due to and based upon administrative services provided to the Authority by SOCWA. The prorated amount charged to the Authority for the year ended June 30, 2007 was \$55,812.

\* \* \* \* \*

***REQUIRED SUPPLEMENTARY  
INFORMATION***

**SOUTHEASTERN OAKLAND COUNTY  
RESOURCE RECOVERY AUTHORITY**

**REQUIRED SUPPLEMENTARY INFORMATION  
(UNAUDITED)**

**DEFINED BENEFIT PENSION PLAN INFORMATION**

**Schedule of Funding Progress**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
12/31/02	\$ 4,466,528	\$ 4,498,801	\$ 32,273	99%	\$ 777,877	4%
12/31/03	4,418,297	4,631,431	213,134	95%	791,458	27%
12/31/04	4,370,535	4,764,015	393,480	92%	754,116	52%
12/31/05	4,340,266	4,784,072	443,806	91%	775,193	57%
12/31/06	4,395,522	4,769,323	373,801	92%	662,521	56%



## ***SUPPLEMENTARY SCHEDULES***

**SOUTHEASTERN OAKLAND COUNTY  
RESOURCE RECOVERY AUTHORITY**

**SCHEDULE OF BUDGET ANALYSIS**

	<b>July 1, 2006 to June 30, 2007</b>		
	<b>Budgeted</b>	<b>Actual</b>	<b>Variances Favorable (Unfavorable)</b>
<b>Revenue</b>			
Municipalities solid waste			
Members	\$ 4,875,000	\$ 4,651,283	\$ (223,717)
Others	711,000	627,065	(83,935)
Total municipalities solid waste revenue	5,586,000	5,278,348	(307,652)
<b>Bulky waste</b>			
Members	-	1,369	1,369
Others	-	10,899	10,899
Total bulky waste revenue	-	12,268	12,268
<b>Compost material</b>			
Members	1,077,434	1,176,214	98,780
Others	66,700	65,951	(749)
Total compost material revenue	1,144,134	1,242,165	98,031
<b>Recyclable material</b>			
Sale of recyclables	1,653,561	1,687,608	34,047
Less: rebates to cities	(465,900)	(401,527)	64,373
Total recyclable material revenue	1,187,661	1,286,081	98,420
Household waste revenue	101,316	149,836	48,520
<b>Other revenue</b>			
Interest income	24,000	59,257	35,257
Insurance proceeds	-	136,502	136,502
Miscellaneous and rental income	120,795	196,229	75,434
Total other revenue	144,795	391,988	247,193
Total revenue	8,163,906	8,360,686	196,780
<b>Operating expenses</b>			
Madison Heights transfer station	291,500	237,243	54,257
Reloading operation - compost	442,500	443,679	(1,179)
Refuse hauling operation	1,530,500	1,109,818	420,682
Battery recycling/special household waste	154,800	205,568	(50,768)
Troy transfer station operation	2,690,800	2,984,313	(293,513)
Material recovery facility	763,600	814,149	(50,549)
Rochester Hills landfill operation	363,800	533,712	(169,912)
Administrative and genera	1,428,335	1,381,781	46,554
Total operating expenses	7,665,835	7,710,263	(44,428)
<b>Funds available for transfer</b>	<b>\$ 498,071</b>	<b>\$ 650,423</b>	<b>\$ 152,352</b>

**SOUTHEASTERN OAKLAND COUNTY  
RESOURCE RECOVERY AUTHORITY**

**SCHEDULE OF BUDGETED OPERATING EXPENSE ANALYSIS**

	<b>July 1, 2006 to June 30, 2007</b>		
	<b>Budgeted</b>	<b>Actual</b>	<b>Variances Favorable (Unfavorable)</b>
<b>Madison Heights Transfer Station</b>			
Receiving and storage			
Labor and supervision	\$ 174,000	\$ 144,965	\$ 29,035
Maintenance of equipment	48,000	16,456	31,544
Maintenance of cranes	40,000	-	40,000
Supplies	-	7,579	(7,579)
Utilities	2,000	54,768	(52,768)
<b>Total Madison Heights receiving/storage</b>	<b>264,000</b>	<b>223,768</b>	<b>40,232</b>
Building			
Supplies and maintenance	8,000	1,544	6,456
Hauling Compost	-	150	(150)
Total Madison Heights building expense	8,000	1,694	6,306
Maintenance of property and grounds			
Labor and supervision	9,500	576	8,924
Maintenance of equipment	8,000	10,525	(2,525)
Supplies	-	242	(242)
Environmental testing and maintenance	2,000	438	1,562
<b>Total Madison Heights maintenance</b>	<b>19,500</b>	<b>11,781</b>	<b>7,719</b>
<b>Total Madison Heights Transfer Station</b>	<b>291,500</b>	<b>237,243</b>	<b>54,257</b>
Reloading Operation - Compost			
Madison Heights			
Labor and supervision	1,000	-	1,000
Maintenance of equipment	500	11,556	(11,056)
Supplies	-	844	(844)
Hauling leaves	70,000	117,604	(47,604)
Hauling woodchips	-	1,201	(1,201)
Total Madison Heights reloading expense	71,500	131,205	(59,705)

Continued...

**SOUTHEASTERN OAKLAND COUNTY  
RESOURCE RECOVERY AUTHORITY**

**SCHEDULE OF BUDGETED OPERATING EXPENSE ANALYSIS**

	<b>July 1, 2006 to June 30, 2007</b>		
	<b>Budgeted</b>	<b>Actual</b>	<b>Variances Favorable (Unfavorable)</b>
Troy			
Maintenance of equipment	\$ -	\$ 70	\$ (70)
Maintenance of building	-	136	(136)
Contractual leaves	371,000	312,268	58,732
Total Troy reloading expense	371,000	312,474	58,526
<b>Total Reloading Operation - Compost</b>	<b>442,500</b>	<b>443,679</b>	<b>(1,179)</b>
<b>Refuse Hauling Operation</b>			
Madison Heights transfer station			
Contractual municipal solid waste (net of credits)	1,530,500	1,109,818	420,682
<b>Battery Recycling/Special Household Waste Operation</b>			
Labor and supervision	38,000	40,580	(2,580)
Maintenance of equipment	-	357	(357)
Maintenance of property and grounds	-	706	(706)
Maintenance of building	-	177	(177)
Household waste transfer hauling	98,800	158,425	(59,625)
Contractual-disposal batteries	18,000	5,323	12,677
<b>Total Battery Recycling/Special Household</b>	<b>154,800</b>	<b>205,568</b>	<b>(50,768)</b>
<b>Troy Transfer Station</b>			
Labor and supervision	84,000	82,925	1,075
Maintenance of equipment	40,000	34,266	5,734
Maintenance of building	500	5,717	(5,217)
Utilities	40,000	38,165	1,835
Maintenance of property and grounds	6,500	4,844	1,656
Supplies	-	3,632	(3,632)
Contractual-disposal	-	3,000	(3,000)
Contractual municipal solid waste (net of credits)	2,519,800	2,780,404	(260,604)
Contractual bulky waste	-	31,360	(31,360)
<b>Total Troy Transfer Station</b>	<b>2,690,800</b>	<b>2,984,313</b>	<b>(293,513)</b>

Continued...

**SOUTHEASTERN OAKLAND COUNTY  
RESOURCE RECOVERY AUTHORITY**

**SCHEDULE OF BUDGETED OPERATING EXPENSE ANALYSIS**

	<b>July 1, 2006 to June 30, 2007</b>		
	<b>Budgeted</b>	<b>Actual</b>	<b>Variances Favorable (Unfavorable)</b>
<b>Material Recovery Facility</b>			
Labor and supervision	\$ 536,000	\$ 585,902	\$ (49,902)
Utilities	14,600	65,977	(51,377)
Maintenance of equipment	-	82,647	(82,647)
Maintenance of building	80,000	10,211	69,789
Maintenance of property and grounds	55,000	5,805	49,195
Household waste transfer	-	4,900	(4,900)
Contracted services	-	4,117	(4,117)
Supplies	78,000	54,590	23,410
<b>Total Material Recovery Facility</b>	<b>763,600</b>	<b>814,149</b>	<b>(50,549)</b>
<b>Rochester Hills Landfill Operation</b>			
Landfill			
Labor and supervision	1,100	11,217	(10,117)
Maintenance of equipment	2,000	-	2,000
Maintenance of property and grounds	13,000	477	12,523
Environmental testing and maintenance	-	4,612	(4,612)
Closure and post-closure care expense	-	32,016	(32,016)
<b>Total Rochester Hills landfill expense</b>	<b>16,100</b>	<b>48,322</b>	<b>(32,222)</b>
Compost			
Labor and supervision	180,000	224,532	(44,532)
Maintenance of equipment	70,000	182,248	(112,248)
Maintenance of property and grounds	13,000	28,014	(15,014)
Utilities	4,700	6,868	(2,168)
Disposal	-	440	(440)
Contractual services	-	500	(500)
Hauling compost	80,000	42,788	37,212
<b>Total Rochester Hills compost expense</b>	<b>347,700</b>	<b>485,390</b>	<b>(137,690)</b>
<b>Total Rochester Hills Landfill Operation</b>	<b>363,800</b>	<b>533,712</b>	<b>(169,912)</b>

Continued...

**SOUTHEASTERN OAKLAND COUNTY  
RESOURCE RECOVERY AUTHORITY**

**SCHEDULE OF BUDGETED OPERATING EXPENSE ANALYSIS**

<b>July 1, 2006 to June 30, 2007</b>			
	<b>Budgeted</b>	<b>Actual</b>	<b>Variances Favorable (Unfavorable)</b>
<b>Administrative and General</b>			
Salaries	\$ 330,800	\$ 272,921	\$ 57,879
Administrative and office	26,000	20,573	5,427
Office space rental	45,000	40,000	5,000
Personnel improvement	1,000	685	315
Travel, conference	2,000	5,051	(3,051)
Recycling education	10,000	156,279	(146,279)
Consulting	64,000	74,159	(10,159)
Legal	36,000	40,877	(4,877)
Audit	11,600	11,600	-
Other accounting services	1,000	-	1,000
Social security	77,100	85,334	(8,234)
Retirement plan	237,700	142,339	95,361
Insurance			
General	117,100	111,339	5,761
Group	400,000	347,098	52,902
Worker's Compensation	25,000	22,882	2,118
Life	4,735	4,167	568
Insurance reimbursement	-	7,515	(7,515)
Service - Madison Heights	5,500	5,597	(97)
Property taxes	31,300	31,371	(71)
Miscellaneous	2,500	1,994	506
<b>Total Administrative and General</b>	<b>1,428,335</b>	<b>1,381,781</b>	<b>46,554</b>
<b>Total expenses</b>	<b>\$ 7,665,835</b>	<b>\$ 7,710,263</b>	<b>\$ (44,428)</b>

**SOUTHEASTERN OAKLAND COUNTY  
RESOURCE RECOVERY AUTHORITY**

**SCHEDULES OF OPERATIONS ANALYSIS**

**For the Year Ended June 30, 2007**

	<b>2007</b>		<b>2006</b>	
	<b>Total Tons</b>	<b>Budget</b>	<b>Actual Amount</b>	<b>Total Tons</b>
<b>Operating Revenues</b>				
Municipal solid waste	133,339	\$ 5,586,000	\$ 5,278,348	130,050
Bulky waste	-	-	12,268	12,241
Compost material	38,213	1,144,134	1,242,165	38,358
Recyclable material (net of rebates)	15,856	1,187,661	1,286,081	15,955
Household waste		101,316	149,836	
Other income		120,795	332,731	
<b>Total operating revenues</b>		<b>8,139,906</b>	<b>8,301,429</b>	<b>7,853,495</b>
<b>Operating Expenses</b>				
Madison Heights transfer station		291,500	237,243	357,998
Reloading operation - compos		442,500	443,679	429,633
Refuse hauling operation		1,530,500	1,109,818	1,320,860
Battery recycling/special household waste		154,800	205,568	174,863
Troy transfer station operation		2,690,800	2,984,313	2,882,086
Material recovery facility		763,600	814,149	824,553
Rochester Hills landfill operation		363,800	533,712	564,359
Administrative and genera		1,428,335	1,381,781	1,462,331
<b>Total operating expenses</b>		<b>7,665,835</b>	<b>7,710,263</b>	<b>8,016,683</b>
<b>Operating income (loss) before depreciation</b>		<b>474,071</b>	<b>591,166</b>	<b>(163,188)</b>
<b>Nonoperating revenue</b>				
Madison Heights settlemen		-	-	(277,000)
Interest on investments		24,000	59,257	39,497
(Loss) on sale or disposition of capital assets		-	(1,607)	-
<b>Total nonoperating revenue</b>		<b>24,000</b>	<b>57,650</b>	<b>(237,503)</b>
Income (loss) before depreciation		498,071	648,816	(400,691)
Depreciation of capital assets		-	424,662	368,533
<b>Net income (loss)</b>		<b>\$ 498,071</b>	<b>\$ 224,154</b>	<b>\$ (769,224)</b>

**SOUTHEASTERN OAKLAND COUNTY  
RESOURCE RECOVERY AUTHORITY**

**SCHEDULE OF CUSTOMER ACCOUNTS RECEIVABLE  
AND ANALYSIS OF CHARGES**

	<b>Accounts Receivable Balance July 1 2006</b>	<b>Municipal Solid Waste</b>		<b>Compost</b>		<b>Recyclables</b>	
		<b>Number of Tons</b>	<b>Billings</b>	<b>Number of Tons</b>	<b>Billings</b>	<b>Number of Tons</b>	<b>Total Credits</b>
<b>Municipalities</b>							
Berkley	\$ 25,909	6,740	\$ 252,747	1,878	\$ 60,098	1,006	\$ (5,423)
Beverly Hills	7,111	4,294	161,037	1,625	52,015	1,078	(32,217)
Birmingham	43,407	10,828	406,111	3,494	111,897	1,766	(52,999)
Clawson	26,304	6,360	238,510	2,162	69,187	768	(23,024)
Ferndale	49,259	11,899	446,204	2,573	82,294	1,140	3,951
Hazel Park	31,482	8,070	302,642	1,315	38,887	469	(13,087)
Huntington Woods	9,633	2,595	97,259	1,050	33,628	1,016	(33,580)
Lathrup Village	10,489	1,940	72,738	813	25,132	193	(5,791)
Oak Park	19,543	9,708	364,048	3,461	102,297	778	(23,330)
Pleasant Ridge	6,875	1,199	44,970	953	30,486	280	(3,959)
Royal Oak	112,112	27,779	1,041,789	9,006	288,396	3,044	(90,897)
Troy	144,754	32,622	1,224,596	8,826	281,895	4,053	(121,172)
	486,878	124,034	4,652,651	37,156	1,176,212	15,591	(401,528)
Other customers	9,643	9,306	637,965	1,056	65,953	265	-
<b>Totals</b>	<b>\$ 496,521</b>	<b>133,340</b>	<b>\$ 5,290,616</b>	<b>38,212</b>	<b>\$ 1,242,165</b>	<b>15,856</b>	<b>\$ (401,528)</b>



				Beginning Accounts Receivable Plus Billings Less Credits	Payments Applied to Charges	Accounts Receivable Balance June 30, 2007
	Late Charge	Household Waste	Total Charges and Credits			
<b>Municipalities</b>						
Berkley	\$ -	\$ 6,957	\$ 314,379	\$ 340,288	\$ 314,693	\$ 25,595
Beverly Hills	-	10,330	191,165	198,276	190,802	7,474
Birmingham	-	16,577	481,586	524,993	507,726	17,267
Clawson	-	8,643	293,316	319,620	291,433	28,187
Ferndale	-	9,214	541,663	590,922	545,181	45,741
Hazel Park	-	2,637	331,079	362,561	332,882	29,679
Huntington Woods	-	5,288	102,595	112,228	95,965	16,263
Lathrup Village	-	1,671	93,750	104,239	94,450	9,789
Oak Park	-	4,096	447,111	466,654	427,131	39,523
Pleasant Ridge	-	2,653	74,150	81,025	74,142	6,883
Royal Oak	-	33,981	1,273,269	1,385,381	1,281,810	103,571
Troy	-	47,700	1,433,019	1,577,773	1,437,087	140,686
	-	149,747	5,577,082	6,063,960	5,593,302	470,658
Other customers	898	-	704,816	714,459	703,083	11,376
<b>Totals</b>	<b>\$ 898</b>	<b>\$ 149,747</b>	<b>\$ 6,281,898</b>	<b>\$ 6,778,419</b>	<b>\$ 6,296,385</b>	<b>\$ 482,034</b>

**SOUTHEASTERN OAKLAND COUNTY  
RESOURCE RECOVERY AUTHORITY**

**SCHEDULE OF WORKING CAPITAL ANALYSIS**

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	<b>June 30</b>	
	<b>2007</b>	<b>2006</b>
Total current unrestricted assets	\$ 3,734,358	\$ 623,349
Less current unrestricted liabilities	<u>4,290,206</u>	<u>1,299,260</u>
Total working capital	(555,848)	(675,911)
Annual operating expenses	<u>7,710,263</u>	<u>8,016,683</u>
Percentage of working capital to annual operating expenses	<u><b>-7.21%</b></u>	<u><b>-8.43%</b></u>

# ***INDEPENDENT AUDITORS' REPORT***



**REHMANN ROBSON**

*Certified Public Accountants*

*A member of THE REHMANN GROUP*

*An Independent Member of Baker Tilly International*

**INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

December 10, 2007

To the Honorable Members of the Board  
Southeastern Oakland County  
Resource Recovery Authority  
Oakland County, Michigan

We have audited the basic financial statements of the *Southeastern Oakland County Resource Recovery Authority*, as of and for the year ended June 30, 2007, and have issued our report thereon dated December 10, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the *Southeastern Oakland County Resource Recovery Authority's* internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the *Southeastern Oakland County Resource Recovery Authority's* internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the *Southeastern Oakland County Resource Recovery Authority's* internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the *Southeastern Oakland County Resource Recovery Authority's* ability to initiate, authorize, record, process, or report financial data reliably in

accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the *Southeastern Oakland County Resource Recovery Authority's* financial statements that is more than inconsequential will not be prevented or detected by the *Southeastern Oakland County Resource Recovery Authority's* internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

#### **Finding 2007-1 – Segregation of Duties**

<b>Criteria:</b>	Management is responsible for establishing and maintaining effective internal control over financial reporting and safeguarding the Authority's assets.
<b>Condition:</b>	During the course of our audit, we noted instances where multiple key duties are being performed by the same individual that also has access to the general ledger. Examples include, (1) the ability to setup new employees and enter payroll information (pay rates, hours, deductions, etc.) (2) the ability to create vendors, enter invoices and print disbursement checks (3) the ability to initiate and enter manual journal entries (4) the duty to perform bank reconciliations.
<b>Cause:</b>	As is the case with many organizations of similar size, the Authority lacks a sufficient number of personnel in order to ensure a complete segregation of duties within its accounting function.
<b>Effect:</b>	Due to the inherent lack of segregation of duties, the Authority has an increased risk that fraud or abuse is not prevented or could be detected in a timely manner. Ideally, no single individual should ever be able to initiate and record a transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and be able to conceal it.
<b>View of Responsible Officials:</b>	The Authority understands the increased risk due to the inherent lack of segregation of duties and has concluded that the cost of implementing the segregation does not warrant the benefit of lower risk obtained. However management will maintain a heightened awareness and continually review the mitigating controls over these areas.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the *Southeastern Oakland County Resource Recovery Authority's* internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether ***The Southeastern Oakland County Resource Recovery Authority's*** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the ***Southeastern Oakland County Resource Recovery Authority***, in a separate letter dated December 10, 2007.

***Southeastern Oakland County Water Authority's*** responses to the findings identified in our audit are described above. We did not audit ***Southeastern Oakland County Water Authority's*** responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the audit committee, the governing board, management, others within the organization, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

December 10, 2007

To the Members of the Audit Committee  
Southeastern Oakland County  
Resource Recovery Authority  
Royal Oak, Michigan

We have audited the financial statements of the business-type activities of *Southeastern Oakland County Resource Recovery Authority* (the "Authority") for the year ended **June 30, 2007**, and have issued our report thereon dated December 10, 2007. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards**

As stated in our engagement letter dated June 14, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Authority's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

**Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the

application of existing policies was not changed during the year. We noted no transactions entered into by the Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

We evaluated the key factors of the assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Authority's financial reporting process (that is, cause future financial statements to be materially misstated). The following audit adjustment, in our judgment, indicated a matter that could have a significant effect on the Authority's financial reporting process. The adjustment involved increasing the Operation and maintenance fund cash account, the Vouchers payable account and the Due to SOCWA account. The need for this adjustment occurred because of a lack of separation of duties over the preparation and approval of the bank reconciliations. The proposed adjustment was recorded.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and



accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Entity’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

This letter and the accompanying memorandum are intended solely for the use of the audit committee, the governing body, and management of the Authority and are not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Hobson". The signature is written in a cursive, flowing style.

# **SOUTHEAST OAKLAND COUNTY RESOURCE RECOVERY AUTHORITY**

## **Comments and Recommendations**

**For the Year Ended June 30, 2007**

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In planning and performing our audit of the financial statements of the **Southeast Oakland County Resource Recovery Authority** as of and for the year ended **June 30, 2007**, in accordance with auditing standards generally accepted in the United States of America, we considered the **Authority's** internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **Authority's** internal control. Accordingly, we do not express an opinion on the effectiveness of the **Authority's** internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be significant deficiencies are described in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

### **Other Matters**

#### **A – Review of Bank Reconciliations**

The Authority has an inherent segregation of duties issue related to cash due to the ability of a single individual having access to the general ledger, is part of the cash disbursement process and performs bank reconciliations as part of their normal routine. We would recommend that someone outside of this process review the bank reconciliations and provide evidence of this review through initialing and

# **SOUTHEAST OAKLAND COUNTY RESOURCE RECOVERY AUTHORITY**

## **Comments and Recommendations**

**For the Year Ended June 30, 2007**

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dating the bank reconciliations.

### **B – Holding Printed Checks**

During our audit we noted that printed disbursement checks were printed and held for several days before being mailed due to the Authority awaiting proper approval by the Board before releasing. . We believe that this condition increases the Authority's risk of misappropriations due to theft and adds unnecessary complexity to the Authority's bank reconciliation process. We would recommend that the Authority consider using a listing of invoices/checks to use for Board approval prior to the actual printing of checks. Once approval is obtained, then checks can be printed and released in a timely manner.

### **C – Manual Journal Entry Approval**

The Authority has an inherent segregation of duties issue related to the journal entry process due to the same individual initiating the entry also has the ability to post the entry to the general ledger. We would recommend that to help mitigate the risk of misappropriations or fraudulent reporting, that manual journal entries are reviewed and approved by someone outside the process as evidenced by their initials and date reviewed on the supporting journal entry documentation.

We would recommend that the Authority assign the role of preparing the bank reconciliation to a person who is independent of maintaining the general ledger.

### **D - New Auditing Standards for Upcoming Year**

In March 2006, the Auditing Standards Board issued eight auditing standards, collectively referred to as the *risk assessment standards*. These new standards are effective for audits of financial statements for periods beginning on or after December 15, 2006. Most auditors believe that the changes caused by the new risk assessment standards are the most significant in recent history.

Overall, the new standards should increase the effectiveness of financial statement audits. In applying the risk assessment standards, auditors explicitly consider higher areas by focusing on what is most likely to go wrong that could affect the financial statements. Auditors assess the risk that the financial statements are materially misstated and design and perform audit procedures to respond to those identified risks. In performing audits under the new standards, auditors and clients may find that they may need to spend more time (at least in the year of adoption) documenting their understanding of internal control systems for each significant area and

# **SOUTHEAST OAKLAND COUNTY RESOURCE RECOVERY AUTHORITY**

## **Comments and Recommendations**

**For the Year Ended June 30, 2007**

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financial statement assertion as it relates to what could go wrong from a financial reporting focus, mitigating controls, and determining if those controls have been implemented.

**Recommendation:**

We would recommend that the Authority begin defining the significant areas and accounting cycles related to financial reporting, identifying “what could go wrong” scenarios and the controls that the Authority has in place to mitigate the impact related to each financial statement assertion.

We of course are willing and able to provide guidance and assistance in developing these new internal control models at any level of involvement as the Authority determines.

We believe that the Authority will benefit by having a working model to easily assess the Authority’s strengths and areas of improvement over internal controls, a physical resource to demonstrate the Authority’s resolve and commitment to good financial reporting and fiscal responsibility, and a proactive approach to help mitigate the rising costs of audit services due to increasing standards and regulations.

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